

Message Text

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SUBJECT: ECONOMIC TRENDS IN BELGIUM - INTERIM REPORT

REF: (A) CERP 0004

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1. AS BELGIUM CLOSES DOWN FOR ITS TRADITIONAL AUGUST HOLIDAYS, BELGIAN GOVERNMENT SOURCES HAVE INDICATED TO US THAT THEIR CONFIDENTIAL MEDIUM TERM OUTLOOK FOR THE ECONOMY, COVERING THE LAST HALF OF 1974, IS REMARKABLY OPTIMISTIC.

2. ACCORDING TO HIGHLY KNOWLEDGEABLE MINISTRY SOURCES, BELGIAN ECONOMIC PLANNERS EXPECT THE INFLATION RATE TO DECLINE IN THE FALL (STARTING IN SEPTEMBER) AND THAT THE ANNUAL RATE FOR 1974 WILL TURN OUT TO BE ONLY 12-13 PER CENT. (THIS THE BELGIAN GOVERNMENT BELIEVES IS TRUE DESPITE THE FACT THAT THE COST OF LIVING IN BELGIUM ROSE 1.76 PER CENT IN JUNE ALONE I.E. AND ANNUALIZED RATE OF 19 PLUS PERCENT.

3. REAL GROWTH FOR 1974 IS EXPECTED AGAIN TO BE ABOUT
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3 PER CENT AND THE BELGIANS CONTINUE PRIVATELY TO EXPECT THE

BALANCE OF PAYMENTS AND THE BALANCE OF TRADE FOR 1974
TO REMAIN SIGNIFICANTLY POSITIVE. UNEMPLOYMENT IS NOT
EXPECTED TO INCREASE THIS YEAR BUT BANKRUPTCIES ARE.

4. BELGIAN GOVERNMENT PREDICTIONS ARE FOR A CONTINUATION OF THIS
TREND THROUGH 1975 PROVIDED GERMANY DOES NOT
BRING ITS INFLATION RATE FOR 1974/75 DOWN BELOW 9 PER CENT AND
THE NETHERLANDS DOES NOT BRING ITS RATE DOWN BELOW 10-11 PER
CENT. IF, ON THE OTHER HAND, THOSE COUNTRIES DO BRING THEIR RA-
TES DOWN LOWER THAN THE BELGIANS EXPECT, THEN BELGIUM WILL DE-
FLATE IN ORDER TO REMAIN COMPETITIVE IN WORLD MARKETS. (BELGIUM
EXPORTS AN AMOUNT EQUIVALENT TO ALMOST 50 PER CENT OF ITS GNP
AND SUCCESS IN WORLD MARKETS IS ESSENTIAL TO ITS WELL BEING.)

5. 1976 WILL BE THE CRUCIAL " YEAR OF ECONOMIC DECISION" FOR
BELGIUM, ACCORDING TO CURRENT BRUSSELS GOVERNMENT THINKING,
SINCE BY THEN THE BELGIANS BELIEVE THE GERMANS AND THE DUTCH WILL,
IN FACT, HAVE PULLED THEIR INFLATION RATES DOWN SUBSTANTIALLY.
IF BELGIUM HAS NOT DONE SO TOO, IT WILL BE FORCED TO DEFLATE
SHARPLY AT THAT TIME.

6. COMMENT: IN THE EMBASSY'S VIEW, THESE BELGIAN

PREDICTIONS, IN SO FAR AS THEY CONCERN BELGIUM, ARE
LIKELY TO BE REASONABLY ACCURATE. THE BELGIAN ECONOMY
IS FLEXIBLE AND HAS A RECORD OF RAPID ADAPTATION TO
CHANGE. CURRENTLY SAVINGS ARE UP (BOTH ABSOLUTELY AND
AS A RATE) AND SO ARE INVESTMENTS.
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